

California Energy Resources Scheduling

A Division of
California Department of Water Resources

Activities and Expenditures Report
Year Ended December 31, 2003

(Provides Data as Required by Section 80250 of the California Water Code)





Table of Contents

<u>Topic</u>	<u>Page</u>
Background	2
Summary Results from Renegotiations	4
Long-Term Contracts Portfolio	7
New Power Plant Construction	14
Overview of 2004 Revenue Requirements	16
Preface - Activities and Expenditures Report	19
Ending Cash Balances	20
Cash Receipts from Ratepayers of IOUs	21
Cash Disbursements for Power Compared to Forecast	22
Power Purchases by Counterparty	23
Bill Credit	
Reasons for \$1 Billion Bill Credit	24
Calculation of Bill Credit and Allocation to IOUs	25
Appropriated Costs - Fiscal Year 2002 - 2003	26
Appropriated Costs - Fiscal Year 2003 - 2004	27



Background

2001

- In late 2000 and early 2001, average wholesale electricity prices soared above \$400 per megawatt hour, nearly 10-times normal;
- On January 17, 2001, the Governor signed an Executive Order in response to the energy crisis ordering the California Department of Water Resources (DWR) to purchase energy for the three investor owned utilities that were on the verge of bankruptcy and unable to make purchases;
- Within hours of the order, DWR established the California Energy Resources Scheduling division (CERS) to buy and sell electricity on behalf of PG&E, SCE and SDG&E;
- In February 2001, Assembly Bill 1X authorized CERS to purchase the remaining energy requirements (“net short”) for the retail customers of the three utilities;
- By mid 2001, a portfolio of contracts were signed to provide more than 12,000 megawatts (MW’s) of supply and to stimulate new construction of power plants;
- The contracted power insulated CERS from over exposure to runaway costs in the dysfunctional spot market.

2002

- Throughout 2002 CERS continued to be responsible for the “net short” of the three utilities;
- The CERS division was responsible for operations, scheduling power, gas-purchases, settlements, contract management, and collecting remittances from utilities customers;
- More than half of the long-term contracts were renegotiated to lower costs, increase flexibility and reliability;
- In August 2002, the California Public Utilities Commission (CPUC) allocated the contracts amongst the utilities effective January 1, 2003;
- CERS, along with other state agencies, successfully issued \$11.3 billion in bonds to repay General Fund with interest (\$6.6 billion) and the Interim Loan balance (\$3.4 billion) and to retain required reserve levels;
- CERS coordinated a seamless transition plan for utilities to assume scheduling responsibilities of contracts on January 1, 2003.

2003/2004

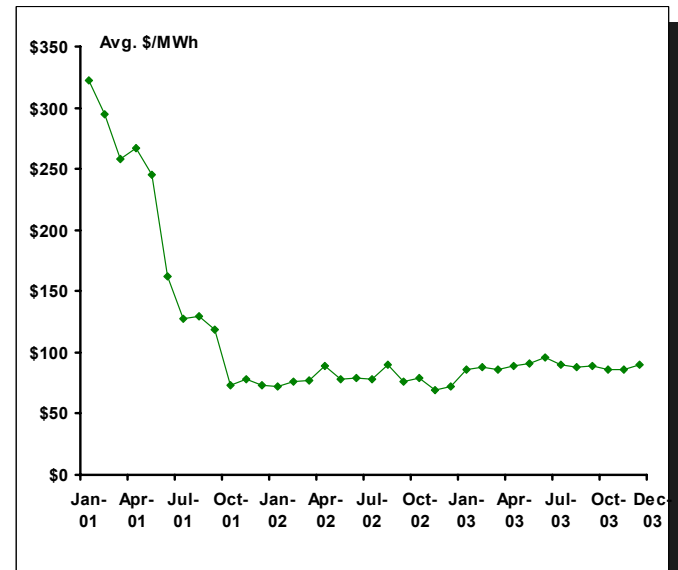
- On January 1, 2003, the three utilities successfully resumed their role of planning for and procuring electricity for their customers;
- CPUC approved the Operating Order/Agreement between CERS and the utilities which governs the rules the utilities must follow in administering and operating the contracts;
- In July 2003, CERS reduced cost to ratepayers by \$1 billion through a decrease in its 2003 Revenue Requirement;
- Renegotiations of contracts continued to prove successful with a total cost savings exceeding \$6.3 billion and improved operability. Renegotiation efforts continue with the remaining counterparties. In addition, the State has pending actions with FERC for \$9 billion in refunds from power generators;
- In January 2004, CPUC implemented 2004 DWR revenue requirement with an interim cost allocation to each of the IOUs;
- CERS is focused on legal and fiduciary responsibility for the contracts and servicing of the bonds. CERS continues to transition operating responsibility to the utilities and reduce administrative costs.

Background – continued

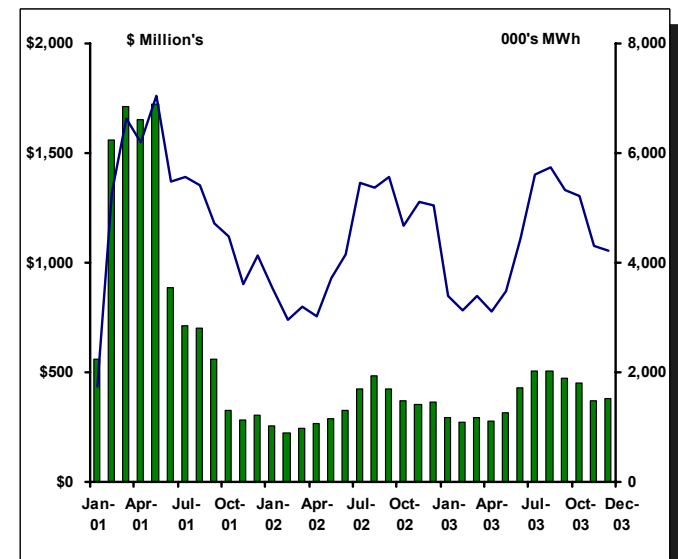
Summary of Energy Costs (starting Jan 17, 2001 thru December 2003)	2001 (starting Jan 17th)	2002	2003
Total Energy* (000's MWh)	60,300	51,800	51,400
Total Costs* (\$ Millions)	\$10,970	\$4,030	\$4,570
Total Avg. Cost per MWh	\$182	\$78	\$89

(*) Total costs are for energy and capacity and do not include bond charges, reserves, administrative and other costs. Totals may incorporate some estimates and are subject to adjustment during settlements and true-ups. For 2001 and 2002, totals include spot market energy transactions. For 2003, totals do not include spot market transactions which is reflected in the average \$/MWh increasing in 2003 compared to 2002. PG&E, SCE, and SDG&E resumed procuring electricity for their customers on January 01, 2003.

Monthly
Total Costs & Energy



Monthly
Avg. Cost per MWh





Summary Results from Renegotiations



Summary Results

Of the 22 counterparties DWR has contracts with, only four have standing contracts under their original terms.

Number of Counterparties with Contracts under Renegotiated Terms		Savings (\$' Millions)	Counterparties with Contract under Original Terms	Counterparties with Expired Contracts	Contracts Terminated
1	Calpine	\$2,900	Coral	BPA	Capitol Power ³
2&3	High Desert / Constellation Power ¹	\$560	Dynegy	Constellation Power ¹	Santa Cruz County ⁴
4	Shell Wind Energy ² (formerly Whitewater Energy Contract)	\$38	PacifiCorp	Intercom	
5	Capitol Power ³	\$6.3	Sempra	Mirant ⁵	
6	CalPeak	\$71		Pinnacle West	
7	Soledad	\$1.7		Primary Power	
8	GWF	\$215		PX Block Forward	
9	Colton Power (formerly Alliance contract)	\$14.6			
10	Mountain View Power Partners, LLC (formerly PG&E ET Wind contract)	\$2.8			
11	Williams	\$1,373			
12	Clearwood	\$28			
13	Wellhead	\$8.2			
14	Santa Cruz County ⁴	\$1.8			
15	Sunrise	\$121			
16	Goldman Sachs Group (formerly Allegheny contract)	\$836			
17	El Paso	\$125			
18	Morgan Stanley	\$40			
Total Savings (\$'s Millions)		\$6,342			

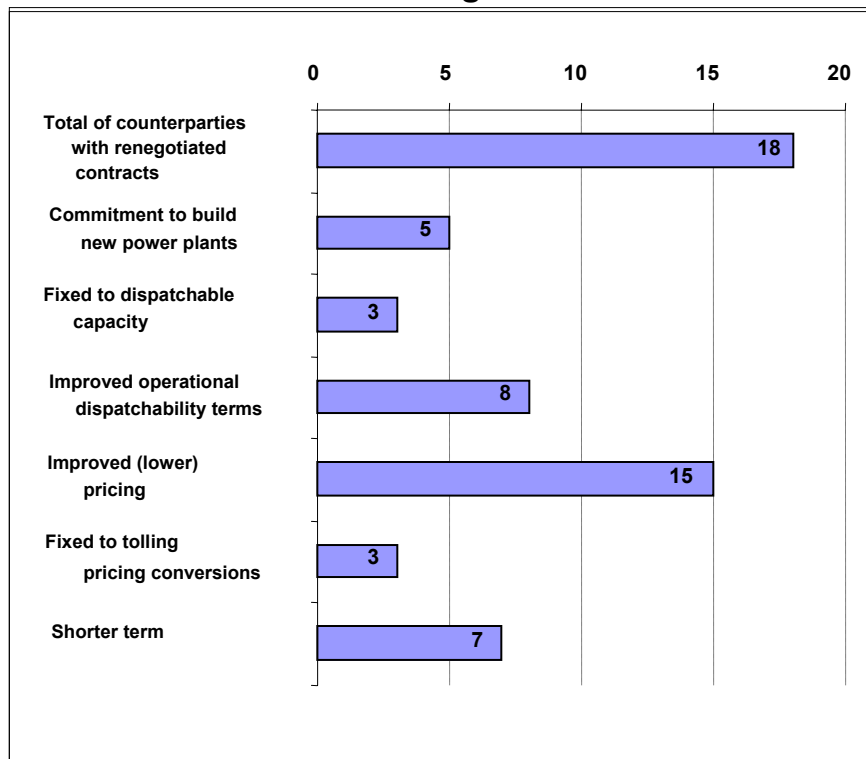
Notes:

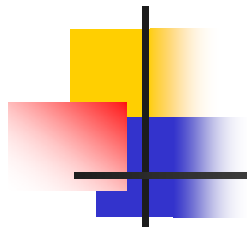
- (1) Constellation Power Systems contract, Product 1 expired Jun-'03 and Product 2 expired Oct-'03; (2) Shell Wind Energy consists of two wind projects, formerly Whitewater Hill and Cabazon. ; (3) Capitol Power was terminated in Nov '02; (4) Santa Cruz County was terminated in early Jan. '04; (5) Mirant contract is in FERC settlement proceedings.

Summary Results - continued

Renegotiations have resulted in improved reliability and contract savings of \$6.3 billion (a 15% reduction from the initial projection of \$42.5 billion). Improved reliability is the result of securing generator commitment to build new power plants. Savings are based on improved contract terms, such as lower pricing, shorter terms and increased dispatchability.

DWR Improvement in Contract Terms due to Renegotiations

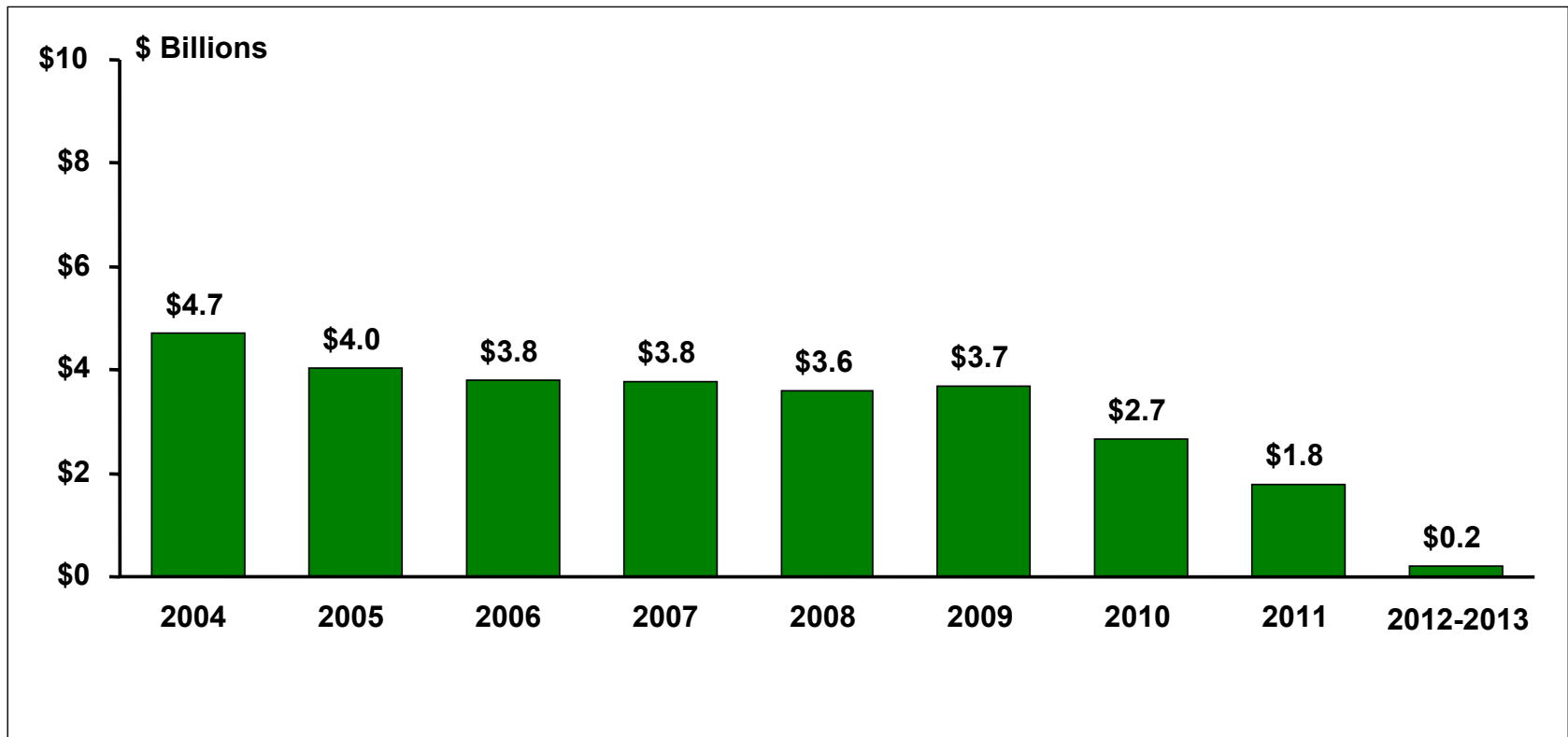




Long-Term Contracts Portfolio

Long-Term Contracts Portfolio

The remaining cost for the portfolio of contracts, from 2004 through 2013, is approximately \$28.3 billion dollars (totals exclude surplus energy sales, bond charges, reserves, and other costs).

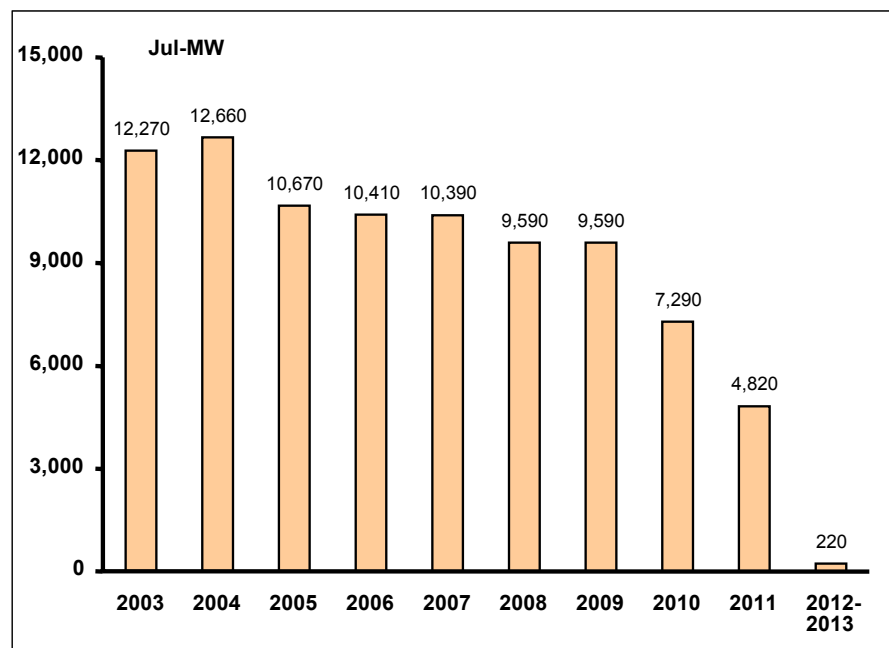


Note: Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions.

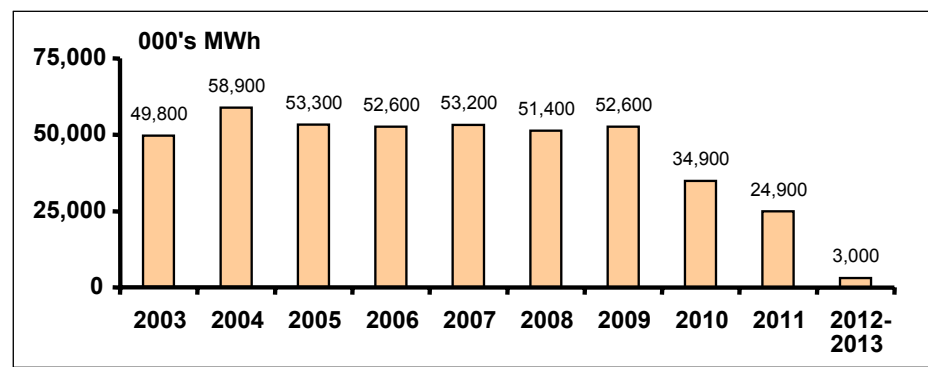
Long-Term Contracts Portfolio – continued

The long-term contracts portfolio peaks in 2004 at 12,660 megawatts, remains above 10,000 megawatts from 2005 through 2007, and then significantly drops after 2009.

Contract Capacity (MW)



Contract Energy (MWh)



	% of Annual Energy									
	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12-'13
Must-Take	82%	87%	85%	86%	85%	82%	80%	69%	76%	39%
Dispatchable	16%	12%	13%	13%	14%	16%	18%	29%	22%	46%
Renewable	1%	1%	1%	1%	1%	1%	1%	2%	2%	15%

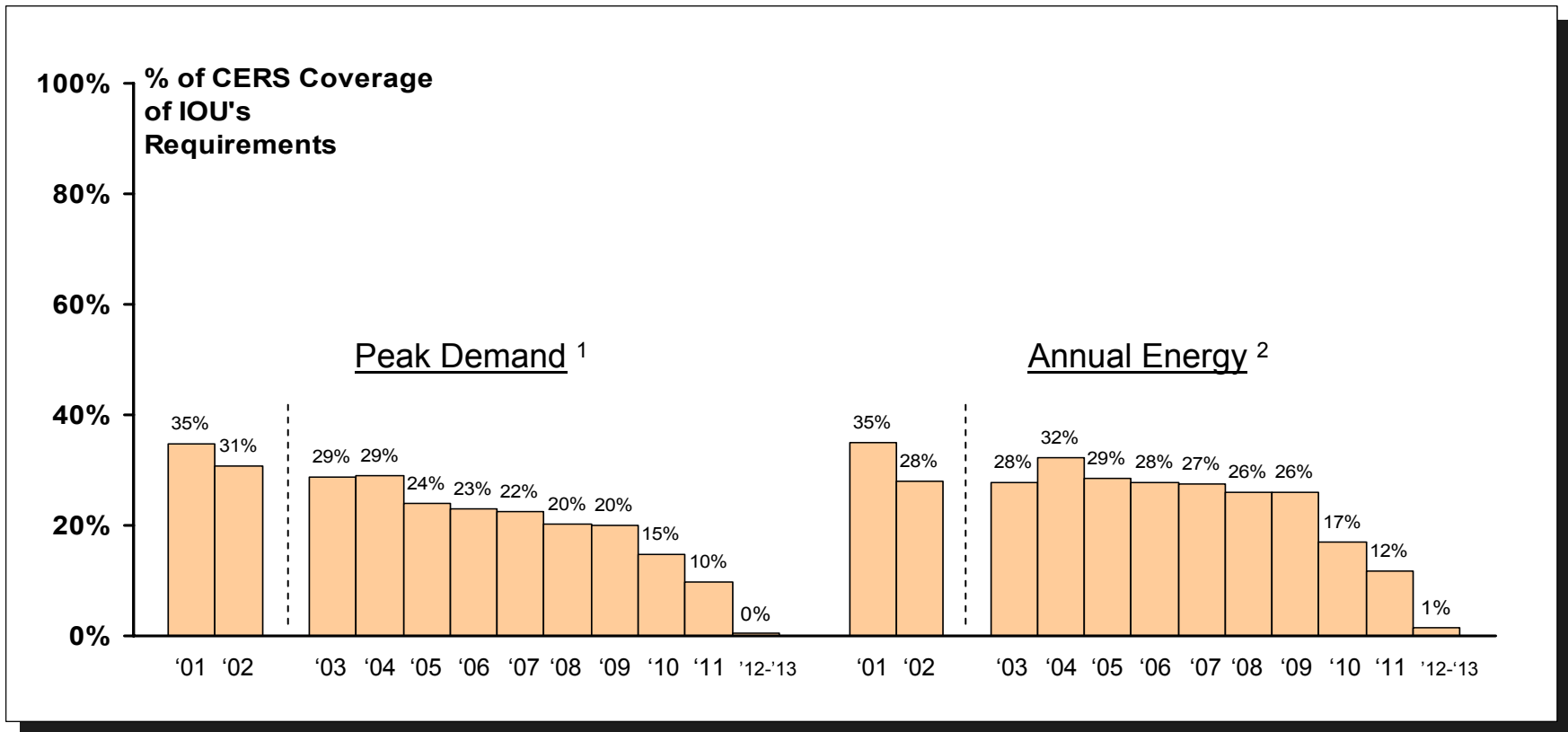
(%s may not add to 100% due to rounding)

Notes:

Includes all renegotiated contracts to-date. Wind projects have been de-rated and includes an additional 1,000 MW system-contingent option in Dynegy contract (contract expires end of 2004).

Long-Term Contracts Portfolio – continued

In 2001, CERS covered 35% of the three utilities peak demand and total energy requirements. By 2010, the remaining long-term contracts will cover approximately 15% of the utilities' requirements.



Notes:

- (1) For 2001 through 2003, percentage based on MW's scheduled by CERS and CAISO peak demand. PG&E, SCE, and SDG&E primarily account for CAISO total demand. For 2004 and beyond, percentage based on MW's under contract and 2% annual escalation of '03 peak demand.
- (2) For 2001 and 2002, percentage based on CERS recorded and energy deliveries to utility customers as reported in utilities financial statements. For 2003 and beyond percentage based on total contract deliveries (excluding surplus sales) and 2% annual escalation of '02 total energy requirements of the three utilities.

Long-Term Contracts Portfolio – continued

In late 2002, the CPUC allocated the portfolio of contracts amongst the three investor-owned utilities (PG&E, SCE, and SDG&E)

Contract Types	Contracts by Allocation		
	PG&E ¹	SCE	SDG&E
A Firm Quantity & Price	Goldman Sachs Group - NP-15 Prod. (formerly Allegheny) El Paso - NP Intercom Calpine 1 Calpine 2 Constellation - Prod 2 Coral	Constellation - Prod 1 Dynergy - firm El Paso - SP Goldman Sachs Group - SP-15 Prod. (formerly Allegheny) Williams Gas Supply Contract ²	Morgan Stanley Primary Power Williams - Prod A, B, C Williams Gas Supply Contract ²
B Firm Price, Unit or System Contingent	Clearwood Soledad	MDU Resources (formerly PGE Trading) Sempra	Shell Wind Energy (formerly Cabazon) Shell Wind Energy (formerly Whitewater - Hill)
C Tolling, Unit or System Contingent	Coral (starting '06)	Dynergy - system Sempra (starting Jun '03)	
D Tolling, Dispatchable	Calpine 1 - Product 2 Calpine 1 - Product 3&4 Calpine - San Jose PacificCorp	High Desert	Sunrise Williams - Prod D
E Tolling, Peaking	Calpeak (Panoche, Vaca-Dixon) Calpine - 3 GWF Wellhead (Fresno, Gates, Panoche)	Colton Power (formerly Alliance Colton)	Calpeak (El Cajon, Escondido, Border)

Notes: Terminated/Cancelled projects not shown. For PG&E, Capitol Power and Santa Cruz County contracts have been terminated. Also, a sixth Calpeak project (Lodi) was cancelled.

(1) In Oct'-03 the CPUC allocated a gas supply contract amongst SCE and SDG&E which resulted from the renegotiation of the Williams power contract.



Long-Term Contracts Portfolio – continued

Description of contract types

Contract Type	General Description	Contract Attributes							
		Energy Pricing		Availability		Dispatchability		Limitation on Operations (Hours)	
		Fixed	Gas Index	Firm	Contingent	No	Yes	No	Yes
A Firm Quantity & Price	Take or pay, no contingency, firm quantity to be delivered no exposure to imbalance, no CERS option on gas purchases.	X		X		X		X	
B Firm Price, Unit or System Contingent	Availability less than 100%, potential exposure to imbalance (replacement energy) when the spot price is higher than contract price	X			X	X		X	
C Tolling, Unit or System Contingent	Fixed capacity payment plus energy payment based on heat rate and gas index, CERS has option to provide gas, availability less than 100%.		X		X	X		X	
D Tolling, Dispatchable	Unit can be dispatched by CERS, fixed capacity payment plus energy payment based on heat rate and gas index, CERS has option to provide gas, availability less than 100%.		X		X		X	X	
E Tolling, Peaking	Units are available for limited hours during specific months, availability less than 100%, capacity payment plus energy payment based on heat rate and gas index, CERS has option to provide gas.		X		X		X		X

Long-Term Contracts Portfolio – continued

Expiration dates of the remaining long-term contracts portfolio

Year of Expiration (Year-end unless otherwise noted)										
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Constellation Power (Prod 1 expired Jun-'03, Prod 2 expired Oct-'03) Goldman Sachs Group (NP-15 product) Intercom (Expired Aug-'03) Primary Power	Dynegy	Calpine (San Jose) El Paso Morgan Stanley	Soledad (Oct-'06)	Williams (Product A)		Calpine 1&2	Colton Power (Oct-'10) Williams (Product B,C,D, & Gas Supply Contract)	Calpeak(s) (2 projects Oct-'11, 3 projects Dec-'11) Calpine 3 (Jul-'11) Goldman Sachs Group (SP-15 Product) GWF (Phase 1 & 2) High Desert (Mar-'11) Mountain View (Sept-'11) Pacificorp (Jun-'11) Sempra (Sept-'11) Wellhead(s) (Oct-'11)	Clearwood Coral (Jun-'12) GWF Ph3 (Oct-'12) Sunrise (Jun-'12)	Shell Wind Energy
Contract MW's Expiring * (non-coincident)										
970	2,100	360	10	200	0	2,000	1,450	4,640	1,300	100

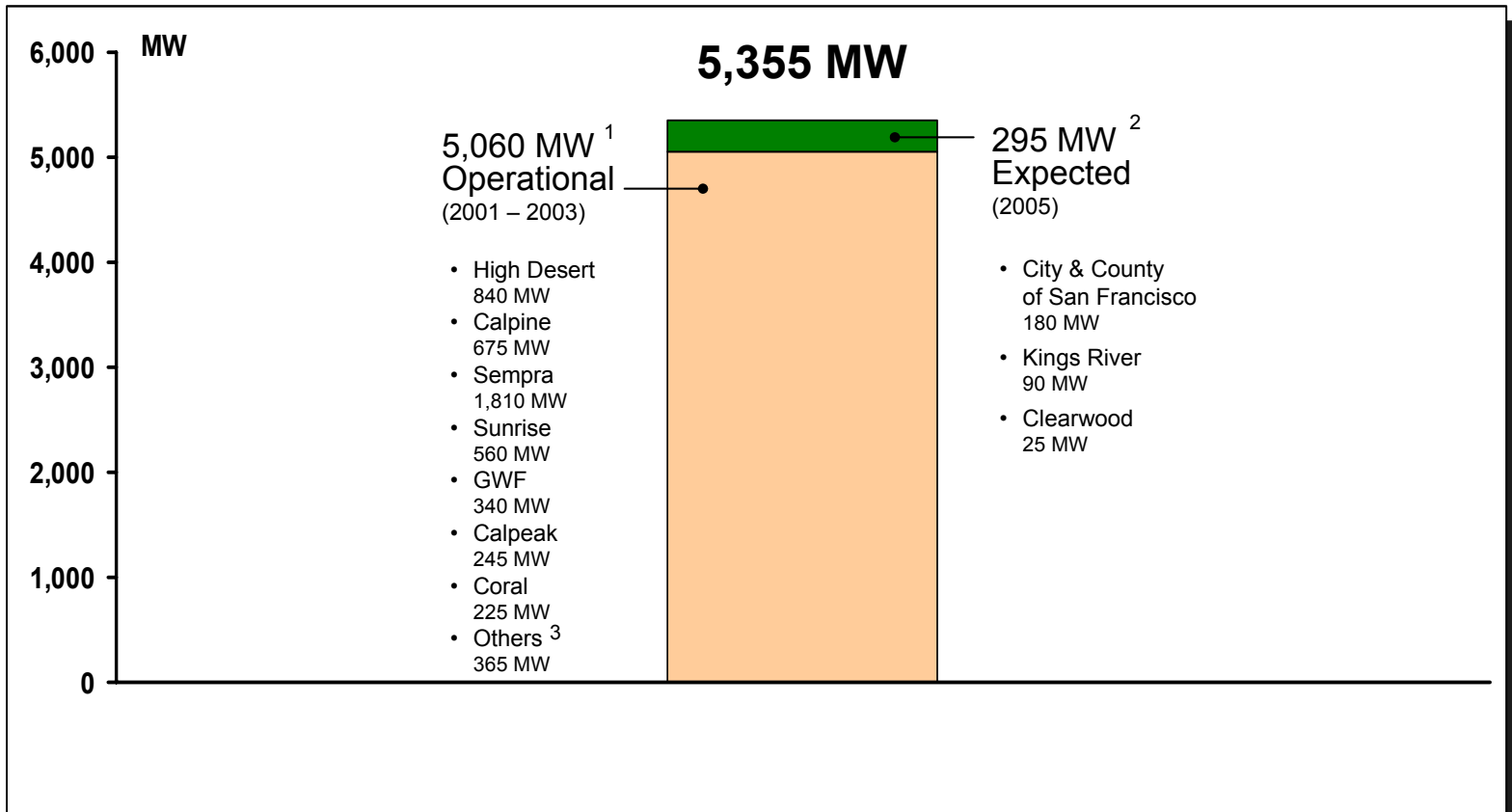
(*) Megawatts shown were available during all or part of the calendar year that will not be available the following year. Contract MW's expiring are non-coincident and not cumulative due to expiration date and annual MW's may vary. For Dynegy contract, includes 1,000 MW system-contingent option.



New Power Plants Supported by DWR Long-Term Contracts

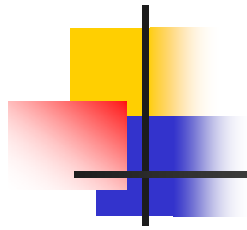
New Power Plants

Supporting DWR contracts, 36 new power plants totaling over 5,000 megawatts have become operational since 2001, with three additional power plants expected in 2005



Notes:

- (1) Includes 1,225 MW of operational out-of-state projects built by Sempra (Mesquite Ph-1 and Mexicali).
- (2) Does not include other planned California projects (3,385 MW from Calpine and 500 MW from Sempra). Also, does not include other planned out-of-state projects (1,275 MW from Sempra and 500 MW from Pacificorp).
- (3) Other projects include: Colton Power, Mountain View, Shell Wind Energy, and Wellhead..



Revenue Requirement



Revenue Requirement

Pursuant to Sections 80110 and 80134 of the California Water Code and the March 8, 2002 Rate Agreement between DWR and the CPUC, the Department notifies the CPUC of its projected costs for the upcoming calendar year by submitting a Revenue Requirement.

The Revenue Requirement includes projected costs for the energy and administration of the long-term contracts for an upcoming calendar year. These cost projections take into account the amount of energy from the contracts expected to be dispatched to customers, sales from surplus energy, the costs of natural gas, and settlement payments. Because these cost forecasts may be updated throughout the year, the Department may submit a “Supplemental” Revenue Requirement to capture the cost changes to either recover increased costs or to return revenue to customers.

The costs outlined in the Revenue Requirement are ultimately recovered by the Department from payments made by customers and collected by the Investor Owned Utilities on behalf of the Department.

The Revenue Requirement determination is produced at least once per year, typically between the months of June and September. Following a public comment period, the Department formally files the final determination with the CPUC. The CPUC, through a public comment process, then establishes power charges and bond charges sufficient to meet DWR’s revenue requirement pursuant to the rate agreement.



Revenue Requirement – continued

Overview of 2004 Revenue Requirement

- On September 18, 2003, DWR filed its revenue requirement for the period January 2004 through December 2004 with the CPUC
- In January 2004, the CPUC ordered the implementation of an interim 2004 DWR revenue requirement
- Total customer revenue requirements equal \$5.39 billion, consisting of \$4.52 billion for energy and energy related costs, and \$873 million for bond related costs
- On March 10, 2004, DWR released a proposed supplemental revenue requirement reducing its 2004 revenue requirement by \$194 million, from \$4.52 billion to \$4.32 billion
- The 2004 Revenue Requirement consists of energy and energy-related costs, power charges revenues, bond related costs, and bond charge revenues

Energy and Related Costs:

- Costs associated with power supply to be delivered under the CERS' priority long-term contracts
- Administrative and general expenses
- Extraordinary costs
- Operating reserves

Power Charge Revenues:

- Revenues from other power sales
- Interest earnings
- Power Charge revenues (including both Power Charge revenues and Direct Access Power Charge revenues, as defined in the Bond Indenture)

Bond Related Costs:

- Debt service on the bonds
- Changes to Bond Charge Account balances

Bond Charge Revenues:

- Interest earned on Bond Charge Account balances
- Bond Charge Revenues



Activities and Expenditures Report

Preface

Pursuant to the reporting requirement in Section 80250 of the California Water Code, the following information reflects energy acquisition activities and expenditures incurred by the California Energy Resources Scheduling Division (CERS) of the Department of Water Resources for the each of the four quarters of calendar year 2003. Included are all costs related to administration and energy acquisition.

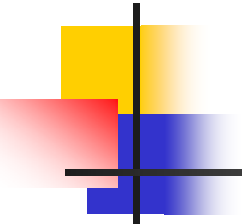
Effective January 1, 2003, CERS successfully transferred certain power procurement responsibilities back to the Investor Owned Utilities (IOUs). CERS no longer purchases power, except power provided under the terms of its existing contracts. CERS also transferred the scheduling, dispatch and certain other administrative functions for the existing contracts to the IOUs. Although no longer buying power on a daily basis, CERS continues to have financial and legal responsibility for its long-term contract portfolio and will oversee repayment of the revenue bonds.

The successful transition of procurement responsibilities back to the IOUs allowed for a substantial reduction in the Operating Account and Operating Reserve Account balances, allowing for a reduction in the 2003 Revenue Requirements. The overall \$1.002 billion reduction in 2003 Revenue Requirements provided bill credits to IOU ratepayers' Power Charges. Bill credits totaled \$444 million for Pacific Gas & Electric customers, \$423 million for Southern California Edison customers and \$135 million for San Diego Gas & Electric customers.

As of December 31, 2003, approximately 60% of the long-term contracts, in terms of both cost and volume of power, had been renegotiated. The estimated fixed and variable cost savings through 2013, when the final contract expires, is approximately \$6.3 billion.

The audited financial statements for the year ended June 30, 2003, and the un-audited financial statements for the quarters ended March 31, September 30, and December 31, 2003, prepared in accordance with generally accepted accounting principles, are an integral part of this Activities and Expenditures Report and can be referenced at the following link: <http://www.cers.water.ca.gov/financial.html>.

This Activity and Expenditure Report, and prior quarterly reports, are available on the DWR website at www.cers.water.ca.gov.



Ending Cash Balances (in millions) For Four Quarters Ended December 31, 2003

	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Power Accounts				
Operating and Priority Contract Accounts	\$1,228	\$1,261	\$1,321	\$1,030
Operating Reserve Account	777	777	630	630
Bond Accounts				
Bond Charge Collection Account	\$99	\$156	\$244	\$184
Bond Charge Payment Account	308	229	388	379
Debt Service Reserve Account	927	927	927	927

Note: All cash balances met the requirements of the Bond Indenture at quarter end and for each day during the quarter.



Cash Receipts from Ratepayers of IOUs (in millions) For Four Quarters Ended December 31, 2003

	Pacific Gas & Electric	San Diego Gas & Electric	Southern California Edison	Total
<u>Power Charges</u>				
Quarter Ended March 31, 2003	\$ 484	\$ 121	\$ 362	\$ 967
Quarter Ended June 30, 2003	534	82	373	989
Quarter Ended September 30, 2003	752	125	463	1,340
Quarter Ended December 31, 2003	623	92	247	962
Power Charges Year to Date	\$ 2,393	\$ 420	\$ 1,445	\$ 4,258
<u>Bond Charges</u>				
Quarter Ended March 31, 2003	\$ 64	\$ 16	\$ 74	\$ 154
Quarter Ended June 30, 2003	72	17	77	166
Quarter Ended September 30, 2003	97	20	138	255
Quarter Ended December 31, 2003	91	7	74	172
Bond Charges Year to Date	\$ 324	\$ 60	\$ 363	\$ 747

Cash Disbursements for Power Compared to Forecast By Month for Year Ended December 31, 2003

2003	<u>FORECAST¹</u>		<u>ACTUAL²</u>		<u>VARIANCE</u>	
	MWh (millions)	Cost (millions)	MWh (millions)	Cost (millions)	MWh (millions)	Cost (millions)
January	3.73	\$316	3.39	\$292	(0.34)	(\$24)
February	3.22	282	3.12	273	(0.10)	(9)
March	3.04	281	3.39	292	0.35	11
April	2.89	267	3.11	278	0.22	11
May	3.20	283	3.49	316	0.29	33
June	4.05	375	4.44	427	0.39	52
July	5.21	473	5.61	506	0.40	33
August	5.74	492	5.74	508	(0.00)	16
September	5.26	464	5.32	475	0.06	11
October	5.04	428	5.23	467	0.19	39
November	4.49	382	4.31	371	(0.18)	(11)
December	4.54	389	4.22	380	(0.32)	(9)

1. Forecasts for January through March are based on 2003 Revenue Requirement and forecasts for April through September are based on the 2003 Supplemental Revenue Requirement

2. Actuals are from Revenue Requirement financial model CFMG3V31i.xls

Power Purchases by Counterparty

For Four Quarters Ended December 31, 2003

	Q1 total			Q2 Total			Q3 Total			Q4 Total			Year 2003 Total		
	MWh	\$	Ave. Price	MWh	\$	Ave. Price	MWh	\$	Ave. Price	MWh	\$	Ave. Price	MWh	\$	Ave. Price
Allegheny Energy Supply Company	722,400	\$ 46,802,400	\$ 65	730,550	\$ 47,335,550	\$ 65	736,800	\$ 47,716,800	\$ 65	737,050	\$ 47,732,050	\$ 65	2,926,800	\$ 189,586,800	\$ 65
Alliance Colton	554	-	-	2,602	34,273	13	7,755	485,870	63	750	48,750	65	11,660	568,892	49
California Power Authority	0	-	-	0	-	-	3,384	270,720	80	26	2,064	80	3,410	272,784	80
Calpeak Power, L.L.C.	3,852	259,999	67	10,077	529,067	53	21,878	402,700	18	3,590	108,722	30	39,397	1,300,488	33
Calpine Energy Services	4,395,226	245,871,458	56	4,121,693	230,532,384	56	5,011,480	274,867,921	55	4,255,426	235,806,342	55	17,783,825	987,078,105	56
Constellation Power Source	243,200	37,452,800	154	832,000	70,153,600	84	883,200	48,576,000	55	298,000	16,390,000	55	2,256,400	172,572,400	76
Coral Power, L.L.C.	511,440	86,433,360	169	414,430	70,038,670	169	1,000,656	169,110,864	169	673,956	113,898,564	169	2,600,482	439,481,458	169
Dinuba	0	-	-	6,903	448,679	65	0	-	-	0	-	-	6,903	448,679	65
Dynegy Power Marketing Inc.	2,025,600	203,370,336	100	2,049,200	216,493,900	106	2,082,549	214,872,963	103	2,064,363	210,913,686	102	8,221,712	845,650,885	103
El Paso Merchant Energy, L.P.	121,600	14,713,600	121	123,200	14,907,200	121	123,200	14,907,200	121	123,200	14,907,200	121	491,200	59,435,200	121
GWF Energy, LLC	3,153	-	-	10,152	190,047	19	20,128	1,084,554	54	3,222	209,430	65	36,656	1,484,031	40
High Desert Power Project, LLC	0	-	-	272,659	13,632,950	50	1,326,351	66,317,550	50	783,476	39,173,810	50	2,382,486	119,124,310	50
Imperial Valley Resource Recovery	34,560	3,110,400	90	34,928	3,143,520	90	35,328	3,179,520	90	35,344	3,180,960	90	140,160	12,614,400	90
Intercom	243,200	10,944,000	45	246,400	11,088,000	45	166,400	7,488,000	45	0	-	-	656,000	29,520,000	45
Madera	37,386	2,003,814	54	47,172	3,638,819	77	0	-	-	0	-	-	84,558	5,642,633	67
Morgan Stanley Capital Group Inc.	108,000	10,314,000	96	109,150	10,423,825	96	102,716	8,859,407	86	88,360	7,157,160	81	408,226	36,754,392	90
PacifiCorp Power Marketing, Inc.	326,557	15,910,340	49	46,525	2,279,232	49	335,010	15,552,225	46	310,343	13,681,740	44	1,018,435	47,423,537	47
PG&E Energy Trading, Power - L.P.	27,186	1,549,601	57	85,315	4,862,954	57	50,230	2,863,099	57	23,077	1,315,389	57	185,808	10,591,043	57
Sempra Energy Resources	474,653	32,751,057	69	1,180,203	81,434,007	69	2,634,649	181,790,781	69	2,638,227	182,037,633	69	6,927,732	478,013,478	69
Sierra Pacific Industries	4,247	197,808	47	4,803	284,221	59	0	-	-	0	-	-	9,050	482,029	53
Sierra Power Corp	14,339	775,488	54	13,677	1,055,033	77	0	-	-	0	-	-	28,016	1,830,521	65
Soledad Energy	21,669	1,731,343	80	22,268	1,779,233	80	22,973	1,835,538	80	23,391	1,868,957	80	90,301	7,215,072	80
Sunrise Power Company	20,423	894,913	44	327,778	10,085,213	31	752,560	39,790,029	53	531,247	28,187,818	53	1,632,008	78,957,974	48
Wellhead	0	-	-	683	44,395	65	0	-	-	0	-	-	683	44,395	65
Wellhead Gates	0	-	-	0	-	-	3,576	214,560	60	0	-	-	3,576	214,560	60
Wheelabrator	6,011	261,050	43	5,646	247,436	44	6,335	261,407	41	5,835	233,400	40	23,827	1,003,293	42
Whitewater	51,438	2,718,123	53	78,321	4,135,456	53	43,092	2,269,996	53	40,053	2,113,500	53	212,903	11,237,074	53
Williams Energy M & T	246,351	15,392,320	62	207,735	10,257,490	49	323,040	15,766,312	49	170,666	6,585,981	39	947,792	48,002,102	51
Williams Energy Services Company	299,200	23,913,600	80	302,920	24,214,700	80	1,057,600	80,144,800	76	1,057,800	80,157,300	76	2,717,520	208,430,400	77
	9,942,243	\$ 757,371,809	\$ 76	11,286,990	\$ 833,269,854	\$ 74	16,750,890	\$ 1,198,628,817	\$ 72	13,867,402	\$ 1,005,710,455	\$ 73	51,847,525	\$ 3,794,980,935	\$ 73

Notes: Power costs identified in this report reflect pure energy costs and do not include related costs such as capacity and transmission.



Reasons for \$1 Billion Bill Credit

While DWR was responsible for procurement of the “residual net short” (short term power), DWR was required under the terms of the Bond Indenture to maintain a minimum Operating Account balance of \$1 billion. Effective January 1, 2003, DWR’s responsibility for the purchase of the residual net short was transferred to the IOUs. With the end of the residual net short responsibility DWR was able to reduce the minimum Operating Account balance to the maximum amount projected by DWR by which operating expenditures may exceed Power Charges during any one calendar month, taking into account a range of possible future outcomes that DWR deems to be appropriate.

Also, because of the end of the residual net short responsibility, DWR was able to reduce its Operating Reserve Account balance to the greater of (i) seven months of projected negative operating cash flows, taking into account a range of possible future outcomes that DWR deems to be appropriate, or (ii) 12% of projected annual operating expenses of the Fund. While purchasing the residual net short, the second test was 18% of projected annual operating expenses of the Fund.

In the first half of calendar year 2003, DWR conducted an internal review of its 2003 Revenue Requirement, which was originally determined in August 2002. Upon completion of internal analyses, which included analyzing actual results through March 31, 2003, the 2003 Supplemental Revenue Requirement was developed and submitted to the CPUC for implementation on July 1, 2003. Based on 1) the ability to reduce reserves, 2) the expected receipt of cash for past due amounts being held in trust by PG&E, and 3) increases in actual and forecasted costs, the 2003 Supplement Revenue Requirement reduced DWR’s 2003 revenue requirement needs by \$1.002 billion.



Calculation of Bill Credit and Allocation to IOUs

A summary of the principal changes between the 2003 Supplemental Revenue Requirement and the original 2003 Revenue Requirement follows (in millions):

January 1, 2003 Operating Account balance higher than originally forecasted	\$ 44
Reduction in required balance for Operating Account	652
Reduction in required balance for Operating Reserve Account	147
PG&E remittance of past due amounts owed to DWR	539
Increased costs under terms of contracts	<u>(380)</u>
Net Reduction in 2003 Revenue Requirement	<u>\$ 1,002</u>

On September 4, 2003, the CPUC implemented the 2003 Supplemental Revenue Requirement which provided for credits for DWR Power Charges to IOU customers as follows (in millions):

Pacific Gas & Electric Company	\$ 444
Southern California Edison Company	423
San Diego Gas & Electric Company	<u>135</u>
	<u>\$ 1,002</u>



Appropriated Costs - Fiscal Year 2002-2003

	Annual Budget (thousands)	Actual Expenditures (thousands)
Salaries, Benefits and Distributed Administrative Costs	\$10,677	\$7,636
Consulting Companies and Personal Service Consultants	40,057	38,104
Other Operating Expenses and Equipment	2,650	1,062
TOTAL ADMINISTRATIVE COSTS	\$53,384	\$46,802

(1) Original budget amount was \$28,161,000. Deficiency notices, primarily for additional consulting company expenses, increasing the administrative budget to \$53,384,000 were appropriated by AB 1761 and approved by the Governor on August 2, 2003.



Appropriated Costs - Fiscal Year 2003-2004

	Annual Budget (thousands)	First Two Quarters Budget (thousands)	Actual First Two Quarters Expenditures (thousands)
Salaries, Benefits and Distributed Administrative Costs	\$9,597	\$4,799	\$4,083
Consulting Companies and Personal Service Consultants	14,100	7,050	5,756
Other Operating Expenses and Equipment	2,922	1,461	289
Subtotal	26,619	13,310	10,128
Allocation of State Wide Pro-Rata Costs	27,869	13,935	13,935
TOTAL ADMINISTRATIVE COSTS	\$54,488	\$27,245	\$24,063